

# Ensuring Financial Happiness through an Integrated Social Welfare System

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**How to cite this paper:** Elliott, W. (2025). Ensuring Financial Happiness through an Integrated Social Welfare System. *Sociology Mind*, 15, 368-401.

<https://doi.org/10.4236/sm.2025.154016>

**Received:** June 30, 2025

**Accepted:** September 15, 2025

**Published:** September 18, 2025

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## Abstract

This article presents a set of five policy proposals that can be used to form a planned and cohesive social welfare policy for ensuring all children have the real opportunity to pursue their own financial happiness. The policy proposals are Child Development Accounts (CDAs), Guaranteed Income, Free College, Baby Bonds, and national financial literacy training in schools. CDAs are a tool government can use to ensure people are financially included. They also Guaranteed income ensures all citizens not only have enough income to meet basic needs, but enough to spark wealth creation. Free college serves as a wealth transfer at age 18 to incentivize some form of postsecondary education to include training in the military or other type of qualifying national service. Baby Bonds are a tool that provides citizens with a wealth transfer at age 25 giving children the opportunity to successfully launch into adulthood by strengthening the return they can receive from their postsecondary credentials. And financial literacy training gives government a tool to ensure citizens have the teaching and training they need to build the knowledge and financial skills required to effectively manage institutional resources for the purpose of pursuing their financial happiness.

## Keywords

Social Welfare, Child Development Accounts, Baby Bonds, Guaranteed Income, Free College

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## 1. Lessons from 40 Years of Social Welfare Policy in America

The objective in this section is to discuss some of the major social welfare themes of Presidents over the last 40 years. I go back 40 years because the Reagan administration appears to mark the beginning of a new era of social welfare policy in America which may have also helped lead to the current political split in America

([The Opportunity Agenda, 2022](#)). It is not possible in this article nor necessary to go into a deep dive on specific policies. The goal is to provide a general picture of what are some of the principles that have shaped the development of the current social welfare system, and why a social welfare revolution is needed if it is to help deliver on the promise that once was America.

### 1.1. Republican President Ronald Reagan (1981-1989)

This brief examination of America's social welfare policy over the last 40 years starts with President Ronald Reagan's administration. An important reason for starting with the Reagan administration is because it is about at the time his administration started that inequality became pronounced in America. For example, it is around 1981 that a noticeable gap in income started to reveal itself ([Congressional Budget Office, 2024](#); [The Economist, 2006](#)).

His administration might be the most pivotal in defining social welfare policies over the last 40 years in part because it marks a significant demarcation between his administration and previous Republican administrations regarding social welfare policy in America ([The Opportunity Agenda, 2022](#)). For example, prior to President Reagan's administration, Republican President Nixon and President Carter both pursued policies to replace the existing welfare system with a negative income tax (NIT) ([Crafton, 2014](#)). The NIT would provide families with a guaranteed annual income to keep families from falling below a minimal income level. In this way, it is similar to currently popular unconditional cash proposals such as guaranteed income or universal basic income ([Bidadanure, 2019](#)). In contrast to his predecessors, President Reagan felt that the NIT would increase dependency on welfare. So, he focused his policy efforts on increasing work requirements for receiving public assistance.

At the same time, they were focusing on work requirements as a primary social welfare strategy, the Reagan administration engaged in a significant and effective media campaign that would define the Republican party's moral philosophy regarding the social welfare system ([The Opportunity Agenda, 2022](#)). Drawing on his movie actor background and charismatic personality, on the campaign trail and while as president, he would use colorful words like "welfare queen" to tell a story about perceived welfare dependency and abuse. He would say,

She has 80 names, 30 addresses, 12 Social Security cards and is collecting veterans' benefits on four non-existing deceased husbands. And she's collecting Social Security on her cards. She's got Medicaid, getting food stamps, and she is collecting welfare under each of her names. Her tax-free cash income alone is over \$150,000. ([Reagan, 1976](#))

While he did not specifically mention race, this narrative helped to racialize the social welfare conversation over the last 40 years ([Black & Sprague, 2016](#)), this has only intensified over time. He recognized the importance that narrative could play in turning the welfare reform discussion from focusing on poverty as the problem, to the welfare system itself as the problem ([Levin, 2019](#)). In doing so, he was able

to make the discussion emotion based, rooted in race, class, and increasingly nationalism.

However, he did not enact a lot of significant social welfare policies. In the Omnibus Budget Reconciliation Act of 1981 (OBRA), states were granted more flexibility to experiment with different approaches to work requirements within Aid to Families with Dependent Children (AFDC). His biggest policy contributions as it relates to social welfare came in the form of tax policies. His social welfare philosophy was informed by trickledown economics. The philosophy behind trickle-down economics is that tax breaks and benefits for the wealthy and corporations benefit the rest of society because this incentivizes the owners of capital (i.e., the wealth) to invest and create jobs (Roubini, 1997). Along these lines, he contended that reducing taxes would stimulate economic growth and lead to higher tax revenue in the end. In line with this philosophy, the Economic Recovery Tax Act of 1981 significantly reduced income tax rates across the board, with the top marginal tax rate falling from 70% to 50%, and the lowest marginal rate went from 14% to 11% (GovTrack, 2025, July 13). Further, during his administration, he also made substantial budget cuts with about 70% of the cuts affecting programs for families earning less than \$20,000 (MacKay, 1983).

The 1980's the U.S. experienced deep recessions, particularly from summer of 1981 to winter of 1982 (Auxier, 2010). The poverty rate in the 1980's was 14% in 1981, it hit a decade high of 15.2% in 1983, and by 1989 it was down to 12.8% (Schridder, 2024). The average poverty rate during the Reagan presidency (1981-1989) was 13.9%. When President Reagan entered office, the federal deficit was a negative \$79 billion, at the end of his term it increased to a negative \$153 billion (A-Mark Foundation, 2023). This was a 94% increase in the deficit. When asked what he regretted as President, Reagan responded, "[t]he deficit is one" (Reagan, 1989).

## **1.2. Democrat Bill Clinton (1993-2001)**

We are skipping Republican George H.W. Bush's presidency (1989 to 1993) to save space, and because from our perspective it did not have a significant impact on social welfare policy in America. However, Democrat Bill Clinton's presidency marked an important shift in America's approach to social welfare. It is during his presidency that the political slogan "end welfare as we know it" was popularized. The major legislation passed to accomplish the objective of ending welfare as it was known was the Personal Responsibility and Work Opportunity Act of 1996 (PRWORA) which replaced Aid to Families with Dependent Children (AFDC) with Temporary Assistance for Needy Families (TANF). PRWORA brought with it a heightened focus on work requirements, limiting lifetime benefits, and reducing the responsibility of the federal government by shifting power to states. Both in practice and in perception this placed outsized responsibility on the individual for being poor. Moreover, among all of the democratic presidents, President Clinton narrative about public assistance most aligned with the Republican narrative.

He emphasized in his speeches on welfare the following themes, the safety net should be for those truly in need, need to break the cycle of dependency, and the importance of promoting work and responsibility among welfare recipients (e.g., Clinton, 1997). When talking about the need for welfare reform, he would often say the goal should be, “ending welfare as we know it”. Maybe no other president in the last 40 years has done more to define the nature of the social welfare system now in place in America, and the narrative surrounding it.

The poverty rate was at its decade high of 15.1% when President Clinton entered office in 1993, it fell each year of his presidency when it reached 11.7% in 2001 (Schridder, 2024). The average poverty rate during the Reagan presidency was 13.9%. The average poverty rate during the Clinton presidency (1993-2001) was 13.1%. When President Clinton entered office, the federal deficit was –\$255 billion, at the end of his term there was a surplus of \$128 billion (A-Mark Foundation, 2023). This is the only time there was a surplus in the 40 years examined in this article. This represents a 150% drop in the deficit.

### **1.3. Republican President George W. Bush (2001-2009)**

During President Bush’s administration social welfare policy doubled down on work as one of the main tools for ending poverty and placed an increased focus on family values. The Bush administration focused on policies that encouraged healthy marriages and an increased focus on child support enforcement. In his speeches about the social welfare system, he would often discuss the importance of work, the importance of independence and self-reliance, the importance of the family unit, and the importance of state innovation—reducing the federal role. For the most part that were a continuation of the Clinton narrative. Much like the unity in message between Nixon and Carter, though a very different kind of narrative (went from united of universal basic income to work requirements and welfare dependency), President Bush aligned with his predecessor, President Clinton. His social welfare policy did go further than his predecessors in its focus on reducing the role of government in providing public assistance. This was best demonstrated most clearly by his Faith-Based and Community Initiative (FBCI). By allowing these organizations to compete for government grant and contracts, it provided them with the opportunity to play a bigger role in providing public assistance.

President Bush’s administration also saw tax policy as a key instrument for impacting the overall social welfare of the country. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) was one of two major tax policies enacted under his administration. It reduced marginal income tax rates for all taxpayers, including the creation of a new 10% bracket which lessened the tax burden on lower income families in particular. Doubled the Child Tax Credit to \$1000. It also increased education tax benefits and contribution limits for IRAs and 401(k)s. Increases in the estate tax exemption shielded more of wealthy families’ wealth from taxation. The Jobs and Growth Tax Relief Reconciliation Act of 2003

(JGTRRA) further accelerated income tax rate reductions. It lowered the top tax rate on capital gains and dividends to 15% and quadrupled small business expensing from \$25,000 to \$100,000.

The economy went through the Great Recession, the longest recession since World War II (Rich, 2013). Further, the country went through the September 11 attacks in 2001, and then the War in Afghanistan and the Iraq War. From its 2001 low of 11.7% when President Bush entered office, the poverty rate slowly grew over the next decade to 14.3% when he left office in 2009 (Schrider, 2024). The average poverty rate during the Bush presidency (2001-2009) was 12.7%. When President Bush entered office, the federal government had a surplus of \$128 billion, at the end of his term the surplus was gone and there was -\$1413 deficit (A-Mark Foundation, 2023). That is, the deficit was about 12 times higher when he left office.

#### **1.4. Democrat Barack Obama (2009-2017)**

During Obama's presidency social welfare policy was largely in response to the Great Recession which ended in 2009. Under his administration there was an expansion of unemployment benefits, and increased food stamp benefits (SNAP). The Obama administration also increased investments in education and job training, while expanding access to affordable housing and health care. A part of President Obama's social welfare policy that he ran on in 2008, was taxing the rich. While not part of the Obama administration, the group known as Occupy Wall Street arose on September 17, 2011. This is important because it intensified the public discourse on income inequality and further cemented within the democratic party the social welfare narrative of tax the rich. While it had been given expression before, it now took on a different tone similar to the tone President Reagan had given to the discussion about those who received public assistance, only now it was regarding the richest 1% of Americans.

Not surprisingly then, the Obama administration also relied heavily on the tax code as part of their social welfare strategy. For example, he passed the American Taxpayer Relief Act of 2012 (the "fiscal cliff deal"). It made most of the Bush-era tax cuts permanent for lower and middle-income households, while restoring the top income tax rate to its Clinton-era level (39.6%). It also limited deductions for high-income taxpayers. Apart from the focus on the taxing the richest in America, the Obama administration also used tax policy to help provide a more secure economic floor for the poor having just come out of the Great Recession. For instance, the American Recovery and Reinvestment Act (ARRA) of 2009 included expanded tax credits like the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC). His biggest social welfare policy accomplishment was the passing of the Patient Protection and Affordable Care Act (ACA), a comprehensive healthcare reform law with an individual mandate requiring most people to have health insurance. In many ways, over the last 40 years, a big part of social welfare planning in America has boiled down to a battle over tax policy.

The poverty rate in 2009 was 14.3% and peaked in 2010 at 15.1%. By 2017 it fell to a low of 12.3% (Schrider, 2024). The average poverty rate during the Obama presidency (2009-2017) was 14.1%. When President Obama entered office, the federal deficit was –\$1413 billion, at the end of his term it had dropped to –\$665 billion (A-Mark Foundation, 2023). Another words, the country experienced a 53% decrease in the deficit just coming out of the Great Recession.

### 1.5. Republican President Donald Trump (2017 to 2021)

The first of Donald Trump's presidencies occurred from 2017 to 2021. His administration focused on reducing welfare dependence, expanding work requirements, and limiting access for undocumented immigrants. Moreover, narrative has been a very important part of his social welfare strategy, particularly during the 2017 to 2021 administration. In a news conference President Trump said, “[P]eople are taking advantage of the system and then other people aren't receiving what they really need to live, and we think it's very unfair to them” (Chang, 2017).

The tax war continued to rage and maybe represented the largest part of the social welfare strategy of the Trump presidency. The Tax Cuts and Jobs Act (TCJA) of 2017 significantly lowered the corporate income tax rate from 35% to 21%. It also changed the US to a territorial tax system for corporations. Lowered individual income tax rates across various brackets while nearly doubling the standard deduction. It capped the State and Local Tax (SALT) deduction at \$10,000 and eliminated the federal tax penalty for violating the individual mandate of the ACA. However, his administration did see an increase in the Child Tax Credit. It was called a Jobs Act. However, unlike the New Deal where the federal government was seen as responsible for playing a primary role in creating jobs for the unemployed (e.g., the Civilian Conservation Corps, the Public works Administration, and the Works Progress Administration), the Trump administration implemented a policy that indicated that the role government was to play in job creation was through enacting large tax cuts for corporations. The thought was, this would provide more revenue for businesses, and they would use the increased revenue to expand and hire additional workers at higher wages spurring further economic growth.

However, in response to the COVID-19 pandemic in 2020, the Trump administration signed off on the CARES Act. The CARES act provided direct payments of up to \$1200 per adult and an additional \$500 per dependent child under the age of 17, expanded unemployment benefits increasing the weekly benefit amount by \$600 for a period while also extending the duration of benefits, provided small business with forgivable loans to cover payrolls and certain operating expenses, and reimbursement for medical related COVID-19 related expenses and lost revenue, it also increased Medicare payments among other things.

When President Trump came in office in 2017 the poverty rate was 12.3% it fell to an all-time low of 10.5% in 2019, when he left in 2021 it was at 11.6% (Schrider, 2024). A reason for the increase, is the COVID-19 pandemic. It created a major

economic downturn in 2020 as world economies were forced to largely shutdown. The average poverty rate during the Trump presidency (2017-2021) was 11.5%. When President Trump entered office, the federal deficit was –\$665 billion, at the end of his term it rose to –\$2776 billion (A-Mark Foundation, 2023). This was about a 317% increase in the deficit over only a four-year term and the pandemic did not occur until the end of his term. In 2019, prior to the pandemic, two-years into his presidency, the deficit was \$984 billion. This was about a 48% increase.

### **1.6. Democrat President Joe Biden (2021-2025)**

The COVID-19 worldwide pandemic drove President Biden’s approach to social welfare policy. His administration focused on strengthening the social safety net, addressing income inequality, and making investments in infrastructure and green energy. Shortly after being elected, he signed into law two major policies to hasten the recovery from the pandemic: The American Rescue Plan (ARP) and the Infrastructure Investment and Jobs Act (IIJA). ARP provided \$1.9 trillion as an economic stimulus in March of 2021. It provided direct payments to individuals, expanded unemployment benefits, and temporarily expanded the Child Tax Credit. It also provided support to state and local governments, schools, business, and expanded access to health care. The IIJA allocated \$1.2 trillion over five years, \$550 billion in new spending for infrastructure improvements related to transportation, broadband, energy, water, and the environment. Generally, the social welfare focus of the Biden administration was on ensuring equitable access to benefits and improving customer service for programs like SNAP and Medicaid. However, the Biden administration was unable to pass much significant tax policy legislation. This is because most of the Trump administrations tax cuts were not set to expire until after 2025, when Biden would no longer be president. Like President Obama, Biden continued to use the narrative that the rich are not paying their fair share, “All I’m asking is you pay our fair share. Pay your fair share just like middle-class folds do. But that isn’t happening now” (Luhby, 2021).

The poverty rate from 2021 to 2023 went from 11.6% to 11.1%, data are not yet available after 2023 (Schridder, 2024). When President Biden entered office, the federal deficit was –\$2.78 trillion, at the end of his term it had decreased to –\$1.9 trillion (Congressional Budget Office, 2024). The federal deficit decreased under President Biden by about 32%.

### **1.7. Republican President Donald Trump (2025 to Present)**

The year 2025 marked the second round of Republican Donald Trump as president. Given it is still year one of his administration, it is hard to paint a quick and fair picture of their social welfare philosophy. However, it has been an active first year with the most telling accomplishment being the passage of One Big Beautiful Bill Act (2025). This big, beautiful bill makes substantial cuts to social welfare programs like Medicaid and the Supplemental Nutrition Assistance Program (SNAP). For the first time, it added requirements for able-bodied individuals on

Medicaid who have no children and are between the ages of 19 and 64, requiring them to complete at least 80 hours per month of work, volunteering, education, or job training to maintain eligibility. Further, the Congressional Budget Office (CBO) estimates that the One Big Beautiful Bill will cut federal spending on Medicaid and Children's Health Insurance Program (CHIP) benefits by \$1.02 trillion (Ives-Ruble & Musheno, 2025). They also estimate that at least 10.5 million people will be cut from Medicaid by 2034. Narrative remains a critical tool for President Trump regarding the social welfare system and immigrants. *The Marshall Project (2024)* reports that Trump claims 270 times in the media that immigrants are stealing American's public benefits; 155 times that they are stealing jobs.

Regarding taxes, the One Big Beautiful Bill extends most individual tax cuts from the TCJA enacted during his first term. This bill also included new deductions for tips and overtime pay and increased the standard deduction for seniors. It temporarily increased the SALT deduction cap to \$40,000 through 2029 and made the higher estate tax exemption from the TCJA permanent. In addition, there has been a systematic attempt to drastically reduce the size of the U.S. government and its ability to play a significant social welfare role. The Trump administration has used such tactics as implementing a federal hiring freeze, requiring federal agency to develop plans for workforce reductions, established the Department of government Efficiency (DOGE), mass layoffs, significant budget cuts, and by eliminating government programs.

While it is too early to know what the economy will be like when President Trump leaves office, when he entered office the poverty rate was at 11.1%. The federal deficit was -\$1.9 trillion. The Congressional Budget Office has estimated that the One Big Beautiful Bill will add \$3.4 trillion dollars to the national deficit over the next decade, that would be an increase of about 79% (Winters, 2025).

### **1.8. What Are Some of the Key Social Welfare Lessons from the Last 40 Years**

While it started off as a Republican policy initiative, presidential administrations over the last 40 years from both parties have relied on work as an intricate part of the social welfare system. This aligns with the largely shared American value (6 in 10) that people should get ahead by working hard (Horowitz, Igielnik, & Kochhar, 2020). It is important to acknowledge, that work in the New Deal also played a major role. However, the focus was on creating jobs many of which were government jobs. In the last 40 years, social welfare policy has been much less focused on the creation of new jobs, and more focused on requiring people to work. However, it does not appear, without social welfare policies specifically designed to ensure jobs are available and supplement the income earned from work, that work can play a central part of the social welfare system. A reason for this is the productivity-wage gap. This is where the growth of worker productivity is out pacing the growth of wages which has been the case since 1979 (Mishel, 2021). Another reason is the advancement of AI. In a recent CNN poll, about 61% of large US firms

said that they plan to use AI to automate tasks previously done by humans (Egan, 2024). Then there is globalization which has also reduced the kinds of jobs available in America (Kelly, 2024) and has lowered wages for low-skilled jobs that low-income workers are more likely to fill (Dadush & Shaw, 2012). Planning a social welfare system around work requirements, has not eliminated poverty or created more economic mobility, and this only seems more improbably five years from now with the speed of technological advances.

The focus on work requirements has not only been because policy makers see work as key to increasing income among the poor, but they are also a way to identify who the truly needy are, or who the deserving poor are (Rosen, 2014). Work requirements as opposed to programs that create new jobs, assumes that jobs already exist but some people are unwilling to work and thus need to be identified and moved off the rolls. This is the second key principle of social welfare policies over the last 40 years, reducing the number of people who are eligible for benefits. Elliott, Osafo Agyare, Zhen, and Min (2025a) posit that from a financial capability perspective, “the government’s obligation is to provide all citizens with the freedom to pursue happiness. It is the responsibility of each citizen to take advantage of the freedom provided to them” (p. 3). So, as a government, there is no need for social welfare policies that seek to identify who is deserving, government responsibility is to assure that each person has the real opportunity to pursue financial happiness, it is up to the individual if they take advantage of the opportunity given to them.

There has also been an emphasis on reducing the size of government agencies that administer social welfare programs. This has largely been a principal of Republican administrations but in a political system where the presidency flip flops almost of cycle, the social welfare system is a mix of republican and democratic principles, it cannot be fully understood from one vantage point or the other. The focus on reducing the size of government agencies seems to have reached an unprecedented level in the current Trump administration. Further, the focus on reducing the size of government over the last 40 years provides a hint to the current social welfare system’s philosophy about what the federal government’s role in should be in providing public assistance.

Tax policy has also been a key part of the social welfare system in America. On this issue, Republican and democratic presidents have been split. Republican presidents have been guided by a notion of trickle-down economics and thus have implemented policies that provide larger tax breaks to the richest families in America with the expectation that they will invest and create not only more jobs but jobs that pay more. Whereas democratic presidents have sought to raise taxes on the wealthy while reducing taxes on lower income families. There is some evidence to suggest that lowering taxes on the richest families plays a role in the deficit increasing while raising taxes on the richest families plays a role in reducing the deficit. It also seems, that simply cutting social welfare programs does not necessarily lead to the deficit decreasing nor does spending on social welfare pro-

grams necessarily lead to the deficit increasing.

In summary, a key focus of social welfare policy over the last 40 years has been on identifying who are the underserving receiving assistance and reducing the number of people who receive benefits largely through work requirements. Both parties have pursued these policy principles. They can be considered cornerstone principles of the social welfare system during this time period. However, in times of crisis it is clear that neither Republican nor Democratic presidents feel as though these policies are able to stimulate economic growth. Instead, they turn to policies that provide direct payments, prop up banks and business, and increase the duration of benefits. Policies that more closely resemble, but fall short of, policies designed to provide conditions for people to be institutionally financially capable. However, the question arises about whether the continued dismantling of federal government agencies will render the government unable to adequately respond in times of crisis? Nonetheless, it does show that both parties understand the limitation of some of these principles and the types of policies that are needed to stimulate economic growth.

There are differences, the Republican administrations have pursued cuts to the size of the government agencies that administer social welfare programs and the programs themselves. They have also used the tax policy to increase the share of income families have. However, these tax policies have often benefited the richest families the most. This should not be surprising and does not even need to be nefarious, it aligns with a trickle-down approach to economic growth. In contrast, Democratic administrations have pursued tax policies that help pay for social welfare programs in order to provide a more secure floor for low-income families while reducing both income and wealth inequality in America. And while Republicans have argued that spending on social welfare programs increases the federal deficit, the evidence suggest otherwise. The deficit has consistently decreased under democratic leadership while it has risen under Republican leadership. The discussion about whether tax cuts on the rich or expenditures on social welfare programs generally raise the deficit is a narrative discussion, not a fact-based discussion. It is about telling stories that appeal to emotion and people's values.

### ***The Role of Narrative in the Development of the Current Social Welfare System***

It is posited here that narrative has played a central role in the development of current social welfare policy. Narratives make social welfare philosophies relatable, inspiring empathy so as to create unity. The attention to narrative by both parties as a policy tool for shaping the social welfare system shows a recognition of its importance for achieving any type of social welfare reform. Research indicates that perceptions, rather than actual inequality (i.e., facts), are more powerful predictors of preferences for redistributive policies (Gimpelson & Treisman, 2018). Republican presidents and policy makers have built public support for reducing the size of government agencies and most of all for defining who is deserving of public assistance through the use of narrative. A part of that strategy has

been defining some groups as criminals, abusers of public assistance, and thus lazy—even not American. Therefore, it is implied, that those who support expanding the government's role in providing public assistance support lazy criminals who abuse the system. In contrast, Democrats have used narrative to build public support to demand the rich carry more of the burden of paying for social welfare programs. To do so they talk about the richest members of society not paying their fair share, and thus not American in their own way. So, the one group demonizes the poor, the other the rich pitting their interests against each other.

Both of these narratives impact the design of social welfare policies in America, often leading to less than effective policies ([The Opportunity Agenda, 2022](#)). For example, these narratives underly policy discussions about who should be eligible for public assistance. To ensure public assistance does not go to the underserving poor, policy makers require in legislation identifies in the form of work, marriage, and increasingly legal status requirements. Conversely, democrats want to block rich people from receiving public benefits. However, in many of the social welfare programs, the rich are defined as those living above the poverty line. But many of these families, if they rise to the level of a security standard of living at all, are stuck there with little hope of them or their children being able to move up the economic ladder. According to polling in 2023, 78% of Americans now think their children will not be better off than them, a drastic increase from 2001 when only 42% felt this way ([Robertson, 2024](#)). To have an opportunity to move up the ladder to a growth standard of living, what might be thought of as the middle-class also need government assistance. For example, [Elliott, Osafo Agyare, Zheng, and Min \(2025a\)](#) find that 75% of White college graduates are living at a security standard while 63% of Black college graduates are living at a survival standard. While White college graduates have a higher standard of living than Black college graduates, they too need government programing to be able to move from a security standard to a growth standard. But to align with public narrative, democrats demand income thresholds be included in legislation without consideration of how the social welfare system is also failing families stuck at a security level of living, both White and Black. In this way, both narratives help to define the social welfare system in a way that does not live up to the American ideal, that government has the responsibility to provide all citizens with the freedom to pursue their financial happiness.

Too often in American politics, narratives have been used to prey on people's emotions rather than to help them relate to and better understand complex political ideas—like using narrative to explain *when* redistribution fits American ideals. For example, it can appear counter intuitive to talk about America being a meritocracy but then implement tax policies that redistribute money. But to be a true meritocracy this is what actually needs to be done when gaps in income and wealth becomes so large, it can no longer be determined if some are exceeding and other failing because of their start in life, and not because of their effort and ability. Further, research indicates that implementing higher taxes on the richest families

actually has not resulted in a real change in their standard of living, downward mobility. For example, research shows that after President Obama's 2013 tax increases, the top 1% of earners share of the nation's income continued to grow at about the same pace as they had been prior to the tax increase (Saez, 2016). Moreover, according to Saez (2016), the tax increase had no discernable negative impact on economic growth. While the poor may move up the economic ladder, it is hard to imagine the richest moving down the ladder. For example, if you took a billion dollars away from Bill Gates, his standard of living would not change, and he would still be one of the richest people in the world. Redistributing wealth is not about changing the living standard of the richest among us, it is about providing the opportunity for mobility of those lower on the economic ladder. Even if the goal of social policies is to raise everyone up to a growth standard of living, the richest standard of living still will far exceed that of those living at growth standard. For example, Elliott, Osafo Agyare, Zheng, and Min (2025b) find that the average net worth of those living at a growth standard in 2021 on average was \$850,214. In comparison, to be considered within the top 1% in 2025, you have to have net worth between \$11.6 million and \$13.7 million (Kelly, 2025). There is a gulf of distance between the richest and families living at a growth standard, leaving very little chance that higher taxes will meaningfully change their standard of living.

In the current political environment narratives are all too often used to motivate people to act by appealing to within group differences (such as race, gender, nationality, and class) in such a way that they, "other" people who do not have the same characteristics. This has had the effect of driving a political wedge between the parties. Instead, it is suggested here that narratives should be used to bring people together across groups. For example, narratives can be used to show how both the poor and the rich benefit from everyone having the real opportunity to pursue their own happiness, that providing the conditions for competition serves everyone best. In this way, redistribution is not a hostile takeover which people instinctually resist, but a way to ensure everyone can better pursue their own financial happiness producing the best outcomes not only for the poor, but the richest in America. A lesson that can be drawn from the last 40 years, is that narrative has been an important tool used by Presidents and their surrogates to shape the social welfare discussion in America. Therefore, reform will also likely only come with a change in narrative.

### **1.9. How Successful Has the Current Social Welfare System Been at Reducing Poverty and Increasing Economic Mobility?**

While there have been different social welfare policy solutions not much has really seemed to change over the last 40 years, but these programs have been able to provide a floor (Congressional Budget Office, 2024). However, despite the poverty rate moving up and down during economic fluctuations, the poverty rate has remained within a relatively narrow range 10.5% to 15.2%; the average poverty rate

from 1981-2021 is 13.2% (Schridder, 2024). While the social welfare system has done a lot to keep poverty from getting worse over this time period, it is as though the current welfare system has hit a ceiling when it comes to being able to farther reduce poverty.

But, in this special issue it has been argued that the social welfare system should be judged by whether it provides the opportunity for all its citizens to pursue their financial happiness, not if it can lift families just above the poverty line. Therefore, it might be that the amount of economic mobility in society is a better way to assess the current social welfare system. Evidence suggests that under the current social welfare system economic mobility over the last 40 years has generally declined (U.S. Government Accountability Office, 2019). For example, Elliott, Osafo Agyare, Zhen, and Min (2025b), measure asset poverty as having enough net worth to live at the poverty line for three months. They find that very few college graduates from 2014-2021 moved from living at a survival standard to a security standard of living, between 11% - 18%. And only about 3% to 4% moved from a survival standard to a growth standard.

### ***Yes, Current Transfers Help but Is It Enough to Deliver the Freedom to the Pursue Happiness?***

The evidence indicates that welfare transfers matter (Congressional Budget Office, 2024). However, the current welfare system is designed to provide families with a survival standard of living, not for giving them the opportunity to move to a growth standard. For example, in 2021 transfers took income of the lowest quintile (fifth) from an average income of \$22,500 to \$48,700 (Congressional Budget Office, 2024). The poverty level for a family of four in 2021 was \$26,500 for a family of four (Health and Human Services, 2021). However, the average income in 2021 was \$123,800 without transfers. This is the year, for example, the CTC was expanded, and unemployment compensation was extended as part of American Rescue Plan Act (ARPA) implemented in response to COVID-19. At the same time the average tax rates fell by six percentage points and still these low-income families were left far below median income levels (income gap of \$75,100). Therefore, it does not appear that the current welfare system is effective at providing all citizens with the real opportunity to pursue their financial happiness.

It might be said that is what the social welfare system should do, act as a safety net and keep the underserving from receiving public assistance. Others might respond in fear that any critique would make it more likely existing social welfare programs like the Child Tax Credit (CTC) and the Earned Income Tax Credit (EITC) would be reduced or canceled and not replaced. However, the current social welfare system has not been able to fulfill the promise that America made to its citizens at its foundation, that all citizens will be given the real opportunity to pursue their own financial happiness.

## **2. Overview of Financial Capability Theory**

In the financial capability paper that is part of this special issue, Elliott, Zheng,

Osafo Agyare, and Min (2025b) specify a financial capability framework that includes income and wealth. In it they suggest that financial capability consists of both internal and institutional capabilities. According to Elliott et al. (2025b), institutional financial capability consists of government's financial inclusion-generating functioning, its income-generating functioning, and its wealth-generating functioning. Functionings are what government can do (i.e., their performance). Within their framework, the individual and the government have a role to play in determining financial capability. Individuals are responsible for their internal financial capability which consist of two functionings: the level of financial knowledge an individual has, and their financial skill. Together, we posit internal and institutional financial capabilities make up a person's financial capability.

### **2.1. A Set of Policy Tools for Government to Empower People to Become Financially Capable**

In talking about the nature of the current social welfare system, Katz (2010) said, "Think of the welfare state as a loosely constructed, largely unplanned structure erected by many different people over centuries. This rickety structure, which no sane person would have designed, consists of two main divisions, the public and private welfare states, with subdivisions within each" (paragraph, 10). In this article, it is suggested that five popular policy proposals could be combined to form a planned and cohesive social welfare policy for ensuring all children have the real opportunity to pursue their own financial happiness: Child Development Accounts (CDAs), Guaranteed Income, Free College, Baby Bonds, and financial literacy training.

These policies have the potential to interact with one another in the same way Elliott, Zheng, Osafo Agyare, and Min (2025b) describe how the four components of financial capability do. Child Development Accounts are a tool to allow government to ensure people are financially included. Guaranteed income ensures all citizens not only have enough income to meet basic needs, but enough to spark wealth creation. Free college serves as a wealth transfer at age 18 to incentivize some form of postsecondary education to include training in the military or other public service endeavor. Baby Bonds are a tool to provide citizens with a wealth transfer at about age 25 giving them the opportunity to successfully launch into adulthood by strengthening the return they can receive from their postsecondary credentials. And financial literacy training gives government a tool to ensure citizens have the teaching and training they need to build the knowledge and financial skills required to effectively manage institutional resources for the purpose of pursuing their financial happiness. This is a social welfare system planned and designed based on theory that aligns with the moral philosophy America was built on, that government has the responsibility to ensure every citizen has the right/freedom to pursue happiness.

These reforms are meant to provide all citizens with the institutional financial capability to live at a growth standard. This does not mean everyone will reach a

growth standard, only that government provides everyone with the real opportunity to (i.e., a meritocratic environment in which to compete). Ironically, by providing every citizen with institutional financial capability so that they have the real opportunity to become financially capable, the government actually is making an individual's own internal financial capabilities the reason why they win or lose. Which better aligns with the individualism that has defined America.<sup>1</sup> Here individualism does not mean the selfish altruistic pursuit of one's own happiness at the sake of everyone else. It means that the level of effort and ability one has is deterministic of their outcomes not where they start off in life. See, when inequality is low, everyone has enough institutional financial capability that it reduces its importance in determining outcomes. The irony is, assuring everyone has enough institutional financial capability when inequality is high, requires increasing government assistance for the have nots while reducing it for those who have. That is, times where inequality is high requires increasing government's role over the role of the individual. And so, adopting, for example, merit-based policies which sound American, but assume a level playing field when it does not exist, is the opposite of what is needed. They have the opposite effect, increasing inequality (e.g., Bello, 2023). From this perspective, the role of government is to provide all its citizens with the highest level of institutional financial capability so as to render institutional financial capability mute, because everyone has it. However, even if there is not inequality and the playing field is level, it still matters that government seek to provide everyone with the highest level of institutional financial capability. This is because it raises what an individual can do and become. This discussion is important for challenging false narratives around the role of government, and how the American Dream that effort and ability should determine outcomes can actually be achieved.

Therefore, individualism is not a problem when inequality is low, and people are competing in a meritocratic economic environment. However, when inequality is high like it is now, and the economic playing field strongly favors the rich, individualism is a ball and chain around the necks of the poor, and they are no longer free to pursue their own financial happiness. Under these conditions the right to pursue happiness is made a mockery, destroying people's faith in the system.

### **2.1.1. Child Development Accounts (CDAs)**

The first policy discussed are CDAs. CDAs are wealth building vehicles which often start at birth or kindergarten. In practice they have been used to help children, and their families pay for college costs. However, they were originally intended to be lifelong accounts that could be used for multiple purposes (e.g., pay for college, buy a home, start a business, and retire) (Sherraden, 1991).

The fact that they can be lifelong is important when designing a social welfare system that has to be able to support people from the cradle to the grave. The

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<sup>1</sup>As a reminder, internal financial capabilities are defined as a set of functionings related to knowledge and skills associated with being financially literate.

current social welfare system lacks a financial institution that extends across the life course and that interacts with the other components of financial capability in a way that augments what the other components can be and do.

CDAs can act as type of policy scaffolding for linking together and administering the other proposals as a cohesive policy strategy. CDAs are asset building accounts that provide a financial structure that can facilitate wealth accumulation from multiple sources. While the details vary, these investments in children's futures include initial contributions and matching contributions. Some programs are also experimenting with including financial literacy programs as part of their CDA program (Goldberg, Friedman, & Boshara, 2010). By the end of 2022 there were 128 CDA programs in 38 states serving about five million children in the US (Prosperity Now, 2023). There are seven states that have a statewide program (California, Illinois, Maine, Nebraska, Nevada, Pennsylvania, and Rhode Island) (Sherraden & Clancy, 2021). All seven states built their programs upon their State 529 Savings Plan structure.

***A Well-Structured Policy Framework Is Critical for Scalable and Sustainable Early-Life Wealth Building Policies Such as Trump Accounts, American Opportunity Accounts Act, and Others***

SEED OK, a long-running experiment ran by Professor Michael Sherraden, director of the Center for Social Development (CSD) at Washington University in St. Louis, has shown that policy models like the 401 Kids bill can be scaled to serve the full population of children, delivering financial and nonfinancial benefits, some of which are greater for disadvantaged children.

To guide program and policy development, a group of CDA experts collaborated to identify eight key principles for designing CDAs at scale (Cisneros et al., 2021):

- Eligibility for all—everyone is included and gets a stake;
- Automatic enrollment—remove barriers to enrollment;
- Automatic initial deposit—jump-start wealth accumulation;
- Start young—maximize wealth-building potential;
- Targeted additional deposits—those with greater need get more;
- Centralized savings plan—enable implementation and reduce costs;
- Investment growth—augment the wealth-building capacity of families;
- Simplified investment options—make decisions easy.

To be effective, federal early-life wealth building policy requires an efficient, effective, scalable, and sustainable account structure. This is fundamental for ensuring that the policy will reach all eligible beneficiaries, manage funds successfully, accumulate assets, and distribute those assets effectively. The policy structure and delivery mechanisms matter. These elements are strengths of CDAs.

Recently federal legislation was passed to start what have been called Trump Accounts.

***Why CDAs Should Be at the Center of Reforming Social Welfare System***

CDAs, as a financial institution, can be used to connect individuals to the fi-

nancial infrastructure of America. Financial institutions like CDAs transmit the effects of the federal monetary policy to individuals. They also help manage and mitigate risk. They do this in part by providing insurance products that protect individual's savings. For example, in response to the banking crisis during the Great Recession, the Glass-Steagall Banking Act of 1933 established the Federal Deposit Insurance Corporation (FDIC). It insured peoples' deposits up to \$2500 then, now up to \$250,000 if a member bank fails. They also take building wealth from an individual endeavor to a community endeavor by pooling savings from any individual investors and treating them as a single large portfolio. These pooled funds are typically managed by a professional investment firm, who makes investment decisions on behalf of all participants. This is one of the ways CDAs augment, particularly low-income families, financial literacy by giving them access to financial planners they would not be able to afford on their own. They also allow for these families to invest in a broader range of assets, such as stocks, bonds, and mutual funds, things they would most likely not be able to afford to do on their own.

Further, when combined with targeted ongoing progressive deposits (we will show how this can be done by combining Free College and Baby Bonds proposals with CDAs) CDAs can provide a financial infrastructure that the federal government can use to reduce the level of wealth inequality in society. Having an effective tool for combating inequality is particularly important in a capitalist system that produces inequality. As such, CDAs can be a tool for ensuring that America is able to become the meritocracy it aspires to be. You may be able to better picture the role that CDAs can play in this new social welfare system with the analogy of water being stored behind a dam equipped with many valves for controlling the flow of water downstream and how much water flows onto the shores of any particular city. In this analogy, water is inequality, and the government controls the valves that redistribute the water. They control how much water flows through the valves, when it flows through, and where it flows. A financial infrastructure that connects all Americans together, that can be used by the government to provide targeted ongoing deposits serves as a type of dam. This dam comes with a set of valves that can be used to facilitate the flow of assets into households to ensure every person has what they need to pursue their own financial happiness.

Moreover, CDAs can facilitate the flow of multiple streams of assets into an individual's account (Elliott, 2023). In addition to the government and families', third parties such as extended family members, employers, philanthropists, communities, as well as other entities are also given the ability to provide a flow of assets into an individual's CDA.<sup>2</sup> In all the ways described in this section and more, CDAs help people build wealth, financial literacy, strengthen the power of income for building wealth, and provide inclusion. Additionally, when people

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<sup>2</sup>New York City Kids RISE is the best example of a CDA program tacking advantage of the power of CDAs for delivering multiple streams of assets. For more information on New York City Kids RISE see [Glickstein and Elliott \(2024\)](#).

do not have access to a strong financial institution that is part of the mainstream economy they cannot be said to be playing on a level playing field. When a person puts money under a bed and calls it saving, they lack all of the things discussed here that allow a person to build wealth (i.e., to become a fisher, a person capable of producing wealth) with the advantages that the federal monetary policy provides is supposed to provide people as citizens. Inclusion is even more important in a country like America. A country that has some of the best federal monetary policies in the world, and a legal system with a police force strong enough to enforce those policies. Being included is more important because it provides such an advantage to those who are able to participate in mainstream institutions that it tilts the playing field toward those who are included.

The lack of recognition of the importance of having a financial institution like CDAs at the center of the social welfare system has created a bifurcated system: a consumption-based arm largely designed for low-income workers to live at a survival standard, and an asset-based arm largely designed for the wealthy to live at a growth standard (Howard, 1997). Rather than including low-income families in mainstream financial institutions a separate set of institutions have been created for them (e.g., TANF, SNAP, Medicaid), that make it difficult to move into mainstream financial institutions.

### ***Trump Accounts***

The recently passed Big Beautiful bill had a provision to establish what some might refer to as CDAs or Baby Bonds. In the bill they are referred to as Trump Accounts, and for now, it might be best just to think of them as Trump Accounts and not a CDAs or Baby Bonds. If designed correctly, they could provide the plumbing for carrying assets wherever children need them throughout the country. As such, they may be a tool to help level the playing field.

As discussed in this article, a national proposal that provided every child a CDA automatically at birth could fulfill the financial inclusion component of financial capability and provide the financial institution needed to reform the current social welfare system. However, one of the major shortcomings of Trump Accounts, and why they could not in their current form play the central role in the social welfare system described in this article, is that they do not automatically open accounts for all children. For CDAs to work as the central institutions of the social welfare system, all children must be given an account. It is not enough to make accounts available to every child, every child must have an account. Not using automatic enrollment ensures these accounts will be another inequality producing institution. These are lessons learned from years of administering CDAs. For example, Maine's My Alford Grant (originally called the Harold Alford College Challenge) is a statewide CSA program that uses the state's 529 platform called NextGen529. My Alford Grant was first administered statewide in 2009 as an opt-in (i.e., families chose to enroll) program. To enroll and receive the \$500 Alford Grant, families had to open a NextGen account within one year of a child's birth. Using the opt-in model, the My Alford Grant program was able to enroll about 25,000

Maine families. So, about 35% of eligible children received the \$500 grant (Quint, 2024). Importantly, research also showed that children who lived in households that were less educated, who did not have other investments, and who did not have a financial advisor were less likely to be enrolled (Quint, 2024). However, in 2014 the My Alford Grant switched to an opt-out model (i.e., all newborn babies were automatically enrolled). Using an opt-out model they were able to achieve nearly 100% enrollment, or nearly full inclusion.

Further, Trump Accounts set the maximum amount that can be deposited annually at \$5000. This would likely grossly expand wealth inequality in America. According to Kim (2025) using an 8% rate of return, if a family was able to reach the \$5000 max each year, that would result in the child having about \$190,947 in their account by the time they reached age 18. If this were the case, this would be the kind of wealth transfer that has never been seen in American history (i.e., if children received \$190,947). Or maybe it will be like most other large wealth transfers in America, such as the Homestead Act, it will end up benefiting the wealthiest (Williams Shanks, 2005). Using the same 8% rate of return, if no deposits were made and assuming fees did not erode their earnings, a child would have about \$3996 in their account when they reached age 18 (Kim, 2025). Research shows that it is wealthy children who are the most likely to reach the annual cap (Elliott, 2018). This would have the possibility of leading to unprecedented levels of wealth inequality. Which raises the question, was it worth enacting even if it provides the foundation for possibly developing a national CDA infrastructure for reforming the social welfare system?

In contrast to Trump Accounts onetime \$1000 deposits that expire in 2029, CDA and Baby Bonds proposals have suggested providing progressive annual deposits until a child turns age 18. For example, then U.S. Senator Bob Casey's 401 Kids Savings Account proposal suggested providing children living in families whose gross income is at or below \$100,000 would receive \$500. For each additional \$1000 over \$100,000 children would receive \$25 less up to \$120,000 (e.g., 101,000 would receive \$475; 102,000 would receive \$450, etc.) (Mulholland, 2024). Further, those receiving EITC would also get an additional \$250. U.S. Senator Cory Booker's Baby Bonds proposal, after year one where every family would receive \$1000, the size of the federal contribution would be based on family income ranging from \$2000 per year for children in families with incomes below the federal poverty line to \$0 for children in families with income above 500% (Booker, 2023). However, it is suggested here, that the income thresholds in both proposals are probably too low. That is, if the goal is for the federal government to provide the conditions for all families to have the real opportunity to pursue their own financial happiness. As Elliott, Osafo Agyare, Zheng, and Min (2005a), find, while many White families are not asset poor, they are also not living at a growth standard of living and thus are also in need of a wealth transfer. Furthermore, it suggested in this article that a national CDA policy should use both income and wealth thresholds to determine the size of the transfer each child should receive and

that existing income thresholds may be too low.

Another significant difference from CDAs and Trump Accounts, is that Trump Accounts have to be held at a brokerage or other private financial institution. Therefore, according to [Brown, Atherton, Ewas, and Boshara \(2025\)](#), Trump Accounts could end up “potentially eroding whatever investment gains may be realized, [and] harming the low-wealth families that most need the accounts”. This potential for even more wealth inequality, might be balanced out some because the Trump Accounts do allow for third party contributions. The opportunity for third party contributions might make it much more likely that low-income families can reach the \$5000 annual match. This aligns with what [Elliott \(2023\)](#) has discussed when talking about the ability of CDAs to facilitate multiple streams of assets to flow into a child’s account and what has been seen in New York City’s Kids RISE CDA program ([Glickstein & Elliott, 2024](#)). However, it is unclear if Trump Accounts have the necessary connections with local communities to maximize this feature of CDAs.

In sum, it is more likely that the current structure of Trump Accounts will lead to vastly more inequality not less. And while some researchers and practitioners from the CDA field may hope that necessary changes will occur to Trump Accounts down the road, and certainly this is possible, we can only judge them as they are currently described in legislation. Moreover, examining the last 40 years of social welfare policy, there is little evidence to suggest that such reform is likely to happen without a change in the underlying theory of social welfare. For example, as discussed in the summary of social welfare policy over the last 40 years, Republican Presidents have largely adopted some form of trickle-down economics. From this perspective, economic growth is believed to occur by transferring wealth to the wealthiest. If a policymaker holds this basic principle, they are likely to design a policy more like Trump Accounts than they are a progressive CDA. If policymakers see the reduction of the number of people receiving benefits as a major tenant of social welfare policy, it is more likely that the policy would not adopt automatic enrollment or be inclined to in the future. In essence, the current design of Trump Accounts fits current theories about how to design social welfare policies. Reforming the current social welfare system will require a financial institution that more closely resembles progressive CDAs with ongoing deposits. Whether this can occur by transforming Trump Accounts or starting a new, is something yet to be determined.

### **2.1.2. Free College**

In the policy framework being proposed in this article, in addition to being included in a CDA, it is recommended that a wealth transfer is also needed when children reach college age. This timing is based on findings from [Elliott, Osafo Agyare, and Min \(2025c\)](#) in this special issue. In line with these findings, it is suggested here that free college proposals can be seen as providing children with a wealth transfer at age 18. Funding for college might be more accurately thought of as an investment in economic mobility. For example, most college students to-

day view higher education as a transaction for a credential that equips them for attaining income (McMurtrie, 2024). Further, public education has long been seen as playing a key role in the American social welfare system (Labaree, 2024). Given this, it does not seem like a stretch to move from education specific transfers to transfers for facilitating economic mobility more broadly. It might be even more important and appropriate to combine education and social welfare policies at a time when people are becoming less likely to see a four-year college degree as the only viable path to pursue their financial happiness (Tough, 2023) and at a time when the federal government increasingly sees investing in education as an individual and state responsibility (Barshay et al., 2025).

More clearly uniting education and social welfare efforts has the extra advantage of uniting coalitions that on their own are unlikely to be able to meaningfully change the current welfare system. Presently, education and social welfare programs fall under separate areas of the federal budget even though they serve very similar purposes in the social welfare system (Katz, 2010). Therefore, including free college proposals in the policy framework, can also unite budget lines. This would have the effect of opening up more revenue to achieve the goal of reforming the existing current welfare system which includes education. Uniting of policies might be even more important with the dismantling of the U.S. Department of Education happening in the current administration (Shelton, 2025). Moreover, it is not enough that people attain a degree, they also need wealth to strengthen their return on degree so that they have a real opportunity to move into a growth standard of living. This is demonstrated in Elliott, Osafo Agyare, and Min (2025c). Providing them with high levels of financial capability may be even more effective than wealth alone, as demonstrated in Elliott, Osafo Agyare, Zheng, and Min (2025a).

One of the things that makes the CDA infrastructure and free college proposal a good fit, is that CDAs can augment the effects of education. Research on CSAs shows positive impacts on children's early social and emotional development, academic performance, likelihood of enrolling in college, and likelihood of persisting to graduation from college. These are valuable gains that are often difficult to produce—at scale—through other interventions. Elliott (2024) did an extensive review assessing the evidence for CDAs as an effective strategy for improving children's postsecondary outcomes. Findings are consistently strongest among low-income children. While there is evidence that CDAs alone can have valuable impacts, there is also evidence that they can provide an infrastructure for delivering scholarship programs that can bolster student academic outcomes in important ways (Elliott, Grant, & Case, 2023; Elliott, 2024). They may also provide means for delivering free college proposals (Promise Programs in practice) using the CDA infrastructure.<sup>3</sup> In this way, traditional scholarships are a type of asset building institution for children. That is, at least to the degree that a conditional

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<sup>3</sup>For more information on Promise Programs and free college proposals go to [https://www.freecollegenow.org/promise\\_programs](https://www.freecollegenow.org/promise_programs).

(i.e., have to qualify for postsecondary schooling) promise of money has the characteristics of assets. This is another area where CDAs may augment free college proposals by strengthening their effects. One could imagine that a conditional promise of money to pay for school may not provide, for example, the same level of confidence to a person as having money set aside in a CDA.

Free college is a promise of money conditional on being eligible to attend some form of post-secondary education. What do children receive when their college is paid for through free college policies? In essence, they receive a significant wealth transfer from the federal government in much the same way that the GI Bill provided soldiers coming home from war with a significant wealth transfer to pay for college. Given that free college is at its core a transfer of wealth to children when they reach age 18, we suggest that CDAs with a federal investment placed in them in an amount equivalent to what it would cost to pay for college is a type of free college proposal. The average cost of attendance at a public 4-year college in-state institution in the 2022-2023 school year is \$11,260 which would be \$45,040 for four years (College Board, 2022). So, rather than free having the characteristic of being a promise, it is made tangible in the form of an early award. Children will grow up being owners of wealth receiving the benefits research shows that are associated with participating in a CDA program that builds wealth for young children (e.g., Elliott, 2024). This idea was foreshadowed some years ago when the College Board (2013) recommended opening savings accounts for children as early as age 11 or 12 who would likely be eligible for Pell Grants once they reached college age and making annual deposits of 5% to 10% of the amount of the Pell Grant award for which they would be eligible.

If free college proposals are transfers of wealth, it might be said that in an important way they have something in common with Baby Bonds' proposals. Both call for significant wealth transfers, typically at the age of 18. Furthermore, the current cost for a four-year degree is in line with Senator Cory Booker's (2023) Baby Bonds proposal. His proposal, which also would phase out based on income level (i.e., the poor get more), would provide every child with an initial \$1000 at birth for all children, and \$2000 every year after phasing out in a similar fashion based on income (e.g., 100% of FPL = \$2000; 125% of FPL = \$1500; 174% of FPL = \$1000, down to 500% of FPL = \$0). A child whose family's annual income is 100% of the federal poverty level would have about \$46,215 in their account when they were 18. The Baby Bond's proposal is estimated to cost about \$60 billion a year (Committee for a Responsible Federal Budget, 2019). However, a key difference between free college proposals and Baby Bonds, is that Baby Bonds proposals allow the funds to be used for multiple wealth building purposes (buying a home, paying for college, starting a business, or retirement).

### 2.1.3. Baby Bonds

In the policy framework being proposed in this article, in addition to a wealth transfer when children reach college age, another is needed when they are about age 25. This recommendation is based on findings from Elliott, Osafo Agyare, and

Min (2025c) in this special issue. In line with these findings, it is suggested here, with some adaptations, Baby Bonds proposals can serve the purpose of providing children with a wealth transfer at age 25 whose main goal it would be to reduce wealth inequality. This is the time point when wealth inequality is at its lowest, and when it might require less wealth to reduce the wealth gap (Elliott et al., 2025c).

The use of the term Baby Bonds as used in Senator Booker's proposal was popularized by Hamilton and Darity (2010). The stimulus for Baby Bonds was the United Kingdom's Child Trust Fund<sup>4</sup> and the American Savings for Personal Investment Retirement and Education (ASPIRE) proposal.<sup>5</sup> Both the Child Trust Fund and ASPIRE were based off of work conducted by Sherraden (1991) in his book, *Assets and the Poor*. He also provided counseling on the development of both. In describing the possibilities of what a CDA could be in *Assets and the Poor*, Sherraden provided a wide range of options.<sup>6</sup> While current models of CDAs are restricted to education, Sherraden also laid the groundwork for multi-purpose CDAs (see p. 260). That is, CDAs that were for other asset building goals such as homeownership, starting a business, or retirement. He even left room for the possibility that there might be other asset-specific uses identified someday in the future (see p. 298). While the most popular and widespread form of CSAs today are small-dollar accounts (\$5 to \$1000 initial deposit with no additional deposits), the CDA infrastructure is not restricted to small-dollar amounts. For example, Sherraden (1991) describes an account with an initial deposit of \$1000 at birth and an additional \$500 deposit placed in the account for each year of schooling completed through grade 11 (see p. 240). He also detailed other possibilities for deposits. For example, he talked about adding a \$2500 deposit into the account once the child completed 12<sup>th</sup> grade and an additional \$5000 for completing one year of national service following high school (p. 240). This is not a vision of a small-dollar account; with these additional deposits it is much more like Senator Booker's Baby Bonds proposal in amount deposited. This is simply to say, the CDA infrastructure is a good fit for delivering on the promise of Baby Bonds, its close cousin. Both policies augment the potential impact that the other can have.

Given this, it is suggested here that the federal government should provide a wealth transfer in the form of a Baby Bond of about \$14,000 at age 25, the age when most children become independent adults. This transfer should be placed into the individual's CDA. This would mean extending the Booker payment schedule through the age of 25 (\$2000 per year from 18 to 25). Based on the Elliott, Osafo Agyare, and Min (2025c) findings, \$14,000 could have a substantial impact on the wealth gap along with the opportunity for continued third-party contributions that could increase this amount. This would contribute to children being

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<sup>4</sup>For information on the Child Trust Fund go to <https://www.gov.uk/child-trust-funds>.

<sup>5</sup>For information on ASPIRE go to <https://www.newamerica.org/asset-building/policy-papers/the-aspire-act-of-2009/>.

<sup>6</sup>Sherraden, M. (1991) *Assets and the poor: A new American welfare policy*. Armonk, NY: M.E. Sharpe.

able to effectively launch into young adulthood giving them the real opportunity to pursue their financial happiness.

#### 2.1.4. Cash Transfers

Within the financial capability framework, income plays an important role in whether a person has the freedom to be financially capable and pursue their own financial happiness. It is hard to imagine how a person can be considered financially capable if they cannot pay their bills and meet their basic needs. So, a function of income is to assure families can meet their basic needs. However, income also serves as a spark for starting wealth building. This suggests that families not only need enough money to meet their basic needs, but they also need some extra money for wealth building. There are a number of current federal policies and proposals that broadly fall under the rubric of cash transfers. Some of the most well-known and relevant are Social Security, Temporary Aid to Needy Families (TANF), Earned Income Tax Credit (EITC), and the Child Tax Credit (CTC).

Introduced in 1997 the CTC is a refundable federal tax credit program for low- and moderate-income earners with children. Originally it provided \$400 per child. It rose to a high of \$3600 for children under six and \$3000 for older children and removed the earned income requirement while making payments monthly. However, this was a one-year change, and it reverted back to \$2000 per credit in 2022. As part of the One Big Beautiful Bill, it was raised again, this time to \$2200. To receive the full tax credit, taxpayers had to make \$31,000 or more in 2024. According to [Peter G. Peterson Foundation \(2024a\)](#), most of the tax benefits go to middle- and high-income taxpayers. About 73% of the tax benefited taxpayers with incomes above \$50,000 in 2023. In 2023, the federal government spent about \$122 billion on CTC ([Peter G. Peterson Foundation, 2024a](#)).

Temporary Aid to Needy Families provides temporary cash assistance to low-income families with children by providing states with fixed block grants. However, states can use TANF funds for four broad purposes 1) basic needs, 2) promoting job preparation, work, and marriage, 3) preventing pregnancies among unmarried, and 4) encouraging two parent families. Eligibility requirements vary by state. Most states have income eligibility thresholds along with asset limits and lifetime limits of five years on receipt of benefits ([Center on Budget and Policy Priorities, 2022](#)). While states vary on the amount of assistance they provide, the median amount that a family could receive was \$498 in 2021. The federal government spends about \$16.5 billion each year on TANF.

EITC is a refundable tax credit where the amount of the credits is more than the amount of taxes owed. As result, the individual receives the difference back in their tax refund. In 2023, the maximum amount a single person with a qualifying child could earn and still be eligible was \$46,560 ([Peter G. Peterson Foundation, 2024b](#)). It cost \$72 billion in 2023. The maximum amount a single person with one child could receive was \$3995 ([Peter G. Peterson Foundation, 2024b](#)). About 89% of the share of EITC benefits went to families with incomes below \$50,000 in 2023.

Social Security is a type of long-term wealth building that better aligns with development. Social Security is funded through payroll taxes paid by both employees and employers. It provides cash assistance when individuals retire, become disabled, or when a family experiences the death of a working member. It is the biggest source of retirement income for most retirees. The average Social Security payment was about \$1862 per month, or about \$22,344 per year (Center on Budget and Policy Priorities, 2024). In 2023 Social Security paid out \$1.38 trillion in total payments (Desilver, 2025). It is worth noting, Social Security is the only program discussed here that is specific to retirement. All of the other programs focus on assisting parents with children. The focus on assisting parents with children and the elderly, is another way that social welfare programs have been designed to identify who are the deserving poor. This implies that only the elderly and children are deserving.

Further, only Social Security is a wealth building program. It is talked about as a cash transfer, but it starts off as a wealth building program, and only much later is the wealth transformed into income. It is also the only true wealth building program listed here, particularly when compared to EITC, but also TANF. In the case of EITC and wealth building, several proposals have been made which attempt to incentivize saving a portion of the refund to help smooth out consumption (i.e., as emergency savings). An example of such a policy proposal is the Refund to Rainy Day Saving Act (S.1018). The Refund to Rainy Day Savings Act incentivized low-to moderate-income families by offering them a 50% match if they would set aside 20% of their refund for six months (Despard, Grinstein-Weiss, Roll, Hardy, Perantie, & Oliphant, 2020). Incentivizing saving for emergencies, aligns with the purpose of EITC to some degree given that EITC is only paid out once a year. In this sense, encouraging low-income families to save out of cash payments that do not provide extra income beyond what they need to meet their basic needs makes some sense because it is saving for the purpose of consumption—emergency savings. Emergency savings is a form of wealth building and is part of moving people from living at a survival standard to a security standard of living. It is not a wealth building policy that is meant to move people to a growth standard of living (Elliott, Osafo Agyare, Zheng, & Min, 2025a). Despite the need to save to maximize the consumption benefits of EITC, it could be argued that asking recipients to save to smooth out consumption is less efficient when refunds could be paid out as monthly payments rather than yearly (Economic Security Project, 2020). So, in the case of EITC refunds, saving and the wealth accumulated more closely resemble a form of income (i.e., more liquid) than they do a form of wealth (Elliott, Osafo Agyare, Zheng, & Min, 2025a).

Regarding TANF, states have the option to use a portion of their federal TANF funds to support saving in Individual Development Accounts (IDAs) (Edwards, 2005). IDAs are a savings account designed to help low-income adults save for things like a down payment on a home, to start up a business, help pay for college, or retirement. They typically offer some type of initial deposit and match (Sherraden,

1991). However, while these income programs (i.e., TANF and EITC) include opportunities to save, these programs were not designed to spark saving. These programs were specifically put in place to make up for the fact that eligible families do not have enough income to meet their basic needs. More specifically, the amounts provided to families through these programs is based on how much they need to consume to survive. They are not designed to provide extra income for wealth building purposes. Given that they are designed to meet basic needs, expecting families to build wealth using funds from these programs, seems somehow like a type of perversion of what they are meant for.

Moreover, what the cash transfer programs discussed here have in common is that they are all focused on providing for basic needs, a safety net not the right/freedom to pursue one's financial happiness. They prescribe to a social welfare philosophy that defines as the goal, to provide people with a survival standard of living, enough to live by, and not something to live for. In as much, they attempt to identify what is the minimal amount people need to consume to meet their basic needs. Further, in line with the earlier discussion that provided a summary of the last 40 years of social welfare policy in the America, they all come with some form of work requirements. Most also restrict how long families can receive benefits, have immigration status requirements, and family structure requirements. Given this, it seems fear to say, that these cash transfer programs are built on the principle that the poor lack certain mainstream values and a purpose for providing public assistance is enforcing these values: work, two parent households, and some form of nationalism.

#### ***A Financial Capability Approach to Cash Transfers***

The current system includes several different cash transfer programs. Running multiple programs to provide cash transfers increases the size of the government and makes it more difficult for recipients to receive benefits. A low-income household will often qualify for all of these programs and a number of other programs (e.g., Medicaid or the Supplemental Nutrition Assistance Program) under the umbrella of the social welfare system. It is posited here that a single cash transfer program would work best. Further, in keeping with the financial capability perspective of social welfare, the goal of the cash transfers would be to go beyond providing a safety net, to helping people have enough income left over after meeting basic needs to spark saving for wealth building.

While not yet a federal program, Guaranteed Income (GI) programs are growing in popularity (Alfonseca, 2023). GI is a program that provides low-income (i.e., not everyone receives it) families with unrestricted cash payments that are meant to supplement an individual's income. Guaranteed Income programs differ from Universal Basic Income (UBI) proposals. This is because UBI programs would provide all families regardless of income with a cash payment for meeting their basic needs. For a cash transfer program to reduce inequality, however, it needs to be progressive. That is, those with less money or no money get more than those at the top of the income distribution so that low-income households can

catch up; reduce the income gap. A cash transfer program that does not include the principle of progressivity will reduce absolute poverty. That is, for example, it will lower the number of people below the poverty line, more people will have sufficient income to buy the basic things they need. It will not be as effective at reducing relative poverty. Policy that adopts a relative perspective of poverty is more concerned with income inequality. So, while a universal program would reduce the number of people who fall below the existing poverty line, it will do little to reduce the size of the income gap between the rich and the poor. And it is inequality that threatens a meritocracy.

In addition to a progressive GI policy fitting with America's meritocratic values, it also is a better policy for strengthening financial capability. This has to do with a simple economic concept, diminishing marginal utility. It states, when a person consumes more units of a good, the additional satisfaction or utility derived from each new unit consumed decreases. So, giving Warren Buffett \$1000 when he already is worth about \$142 billion (Peterson-Withron, Chung, & Durot, 2025), produces no additional satisfaction for him. He does not go out and buy more food or invest more because he receives a \$1000 per month through a universal basic income program. While most of us cannot relate to this in terms of money, it might make more sense in terms of food. You are sitting at your favorite donut shop, and you just forced down your tenth donut out of a dozen, at this point eating the eleventh will bring you little in the form of satisfaction other than just wanting to say you finished the dozen. At some point, getting more money does not do anything to materially change your life, how you feel other than to say I have more money. Conversely, an additional \$1000 per month for someone living at or near the poverty line can change their living standard and will bring them satisfaction. Research on GI programs provide some evidence of this (West & Castro, 2023). From this, it seems fair to say while income and even wealth are important for whether a person is financially capable, at some point you just have enough of both, and they cannot contribute anything more to your financial capability.

In sum, it is posited here that a progressive federal GI program is more in line with what Americans need from a social welfare system; it allows for funds to go to those most in need and it can be structured in such a way that it ensures lower income households get more, counter acting the production of inequality inherent in a capitalist system. This is not saying capitalism is evil or bad, it is simply saying the way to get the most out of capitalistic system is to build a social welfare system that complements it. Further, having one cash transfer program, that could provide different groups with different levels of funding (e.g., adjusting amounts based on income level, number of people in household, etc.) rather than several programs will increase efficiency and make it easier to navigate for those who need the assistance. Lastly, delivering these funds through the CDA infrastructure already in place, would only help to further streamline the social welfare system and create efficiencies.

### 2.1.5. Financial Literacy

It is suggested here that financial literacy training should be woven into education's curricula and its classrooms. More specifically, it is posited here that personal finance courses should be a mandatory part of all high school curricula. It can play an important role in helping to develop children's internal financial capability and in turn education's ability to be an equalizer. Further, it is posited that financial literacy efforts should extend beyond high school and become a part of postsecondary curricula and classrooms.

In 2022, about 23% of high school students (or nearly 1 in 4) had guaranteed access to personal finance courses (Next Gen Personal Finance, 2022). In states where it is not mandated (in 38 out of the 50 states it is not required), 1 in 10 students take a standalone personal finance course prior to graduation (Next Gen Personal Finance, 2022). Research shows high school students who take a standalone personal finance class is an important predictor of student's economic outcomes. While only a small percentage of students overall take a standalone personal finance course prior to graduating, it is even more bleak for students attending low-income schools or predominately Black and Brown schools. Next Gen Personal Finance (2022) reports that 1 in 20 students attending schools where more than 75% of the students are eligible for free and reduced lunch take a standalone personal finance course. They find a similar ratio for schools where more than 75% of students are Black and Brown. Not surprisingly then, a nationally representative sample of college students reports that only 53% feel prepared to manage their money while in college (Zapp, 2019).

Further, CDAs also provide potential for making financial literacy training in schools more tangible to students. Financial education combined with an actual investment account with money in it may provide students with an environment ripe for developing financial capability (Johnson & Sherraden, 2007; Sherraden, 2013). That is, educational environments where experiential learning can take place go beyond mere games and simulations. You can easily imagine a world where every child in a school has a CDA account and teachers use these accounts in a personal finance course or even math class to develop lesson plans that give students real life experience with concepts like saving, investing, interest, and money management. Research shows that experiential learning promotes increased engagement and retention of financial knowledge by students (Beutler & Dickson, 2008; Mandell & Klein, 2007).

## 3. Conclusion

To date, the American social welfare system lacks a policy structure that extends from birth through retirement. This set of five policies, when combined into a comprehensive and planned social welfare system, might be the key for delivering on the right every person has to the pursuit of financial happiness.

Therefore, policies that have very similar characteristics are treated and pursued independently as competing ideas, lessening their potential impact while in-

creasing the overall investment the government has to make to spur on economic mobility. CDAs provide a well-structured policy framework capable of delivering both free college and Baby Bonds proposals. Combining the funds invested into a single account would reduce barriers to accessing the funds. It would also reduce the bureaucracy needed to administer the funds. And it would have the effect of increasing the power of funds for building wealth. Further, funds placed in a CDA, organized by the community, can serve as a crucial reminder to children and their parents that other parents, the broader community, and the government are behind them. Thus, the CDA platform can serve as an organizing tool for the social welfare system. It can enhance networking among federal, state, and local agencies, build robust partnerships and collaboration between agencies with complementary missions. Moreover, but who are outside of the social welfare system, and direct resources towards people living in communities outside their own neighborhoods.

### Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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